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EXCISE 37

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INQUIRE=DOC15D
ITEM NO=00301416

ENVELOPE

CDSN = LGX361 MCN = 91226/20899 TOR = 912261411
RTTCZYUW RUEKJCS5247 2261410-CCCC--RUEALGX.
ZNY CCCCC

HEADER

R 141410Z AUG 91
FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC
RUENAAA/CNO WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
RUEADWD/PTC WASH DC
RUSNNOA/USCINCEUR VAIHINGEN GE
RUFGAID/USEUCOM AIDES VAIHINGEN GE
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL
RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//
RHDLCNE/CINCUSNAVEUR LONDO . UK//N2/N24//
RUQYSDG/FOSIF ROTA SP
RHCGRSB/COMUSARCENT FT MCPHERSON GA//AFRD-DSO//
RUCJACC/USCINCCENT MACDILL AFB FL//CARA//
RUEALGX/SAFE

R 141307Z AUG 91
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 3074
RUEATRS/SECTREASURY WASHDC
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUFHLD/AMEMBASSY LONDON 4611
RUFHFR/AMEMBASSY PARIS 2621
RUEHIL/AMEMBASSY ISLAMABAD 1624
RUFHBG/AMEMBASSY LUXEMBOURG 0038
BT

CONTROLS

C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 05247

DEPARTMENT PASS FEDERAL RESERVE - RICHARD SMALL

STATE FOR L/J. OSBORNE; ALSO FOR NEA

E.O.: 12356: DECL: OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, TC, UK, FR
SUBJECT: VIEW OF BCCI SCANDAL.

REFS: (A) ABU DHABI 5192 (NOTAL), (B) ABU DHABI 4346,
(C) PARIS 21153

1. CONFIDENTIAL - ENTIRE TEXT.

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DEPARTMENT OF STATE

() RELEASE () DECLASSIFY
☒ EXCISE ☒ DECLASSIFY
() DENY IN PART
() DELETE Non-Responsive Info
FOIA Exemptions B1
PA Exemptions

IS/FPC/CDR

MR Case Only:
EO Citations

TS authority
() CLASSIFY () S or () C OAD
() DOWNGRADE TS to () S or () C OAD

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2 REGIN SUMMARY

THE MEETING WAS PRIMARY FOCUS OF
LATEST DEVELOPMENTS CONCERNING INVESTIGATIONS AND
INDICTMENTS IN THE U.S. (REF A).
AT PRESENT, THE UAE IS FAR LESS TROUBLED BY
POSSIBLE LEGAL ACTIONS IN THE U.S. THAN BY THE
"UNFRIENDLY AND TOTALLY UNJUSTIFIABLE" ACTION TAKEN BY
THE BANK OF ENGLAND TO CLOSE DOWN BCCI.
CONCERN ABOUT PRESSURES TO LIQUIDATE BCCI'S
HOLDINGS IN THE U.S. IMMEDIATELY, RATHER THAN
PERMITTING ITS ASSETS TO BE SOLD LATER WHEN CONDITIONS
MIGHT ALLOW FOR A MORE REASONABLE RETURN ON THE
INVESTMENT. CHARACTERIZED THE UAE SHEIKHS
INVOLVED WITH BCCI AS HAVING BEEN MISLED BY BCCI
FOUNDER AGHA HASAN ABEDI.

THEY SIMPLY VIEWED THEIR DEALINGS WITH
ABEDI AS NORMAL BUSINESS TRANSACTIONS AND CONSIDERED
ANY COMPENSATION THEY RECEIVED AS NOTHING MORE THAN
PROFIT SHARING PAID IN ADVANCE FOR HOLDING FUNDS.
WHILE OUTLINING CURRENT THINKING ON PLANS TO BAIL OUT
BCCI'S DEPOSITORS IN THE UAE, WAS MORE
VAGUE ON PLANS TO COMPENSATE DEPOSITORS ELSEWHERE.
THE UAE CENTRAL BANK HAD REBUFFED A REQUEST
FROM THE FRENCH TO INDEMNIFY FRENCH DEPOSITORS OF BCCI
AS IT HAD DONE IN THE U.K. END SUMMARY.

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STRESSED
OUR INTEREST IN KEEPING THE UAE FULLY INFORMED OF
DEVELOPMENTS. WHILE THE USG CANNOT INTERFERE WITH THE
VARIOUS INVESTIGATIONS IT DOES WISH TO ASSURE THAT UAE
PARTIES WHO MAY HAVE BEEN INVOLVED HAVE EVERY
OPPORTUNITY TO PRESENT THEIR SIDE OF THE STORY TO
APPROPRIATE USG INVESTIGATORS.

5.

THAT ANY ADVERSE IMPACT ON THE
U.S./UAE BILATERAL RELATIONSHIP DUE TO FALLOUT FROM THE
BCCI SCANDAL WOULD PALE IN COMPARISON WITH THE ACTION
ALREADY TAKEN BY THE BANK OF ENGLAND ON JULY 5 TO CLOSE

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BCCI WITHOUT PRIOR CONSULTATIONS WITH ABU DHABI (REF B). HE ILLUSTRATED THE OUTRAGE FELT IN ABU DHABI BY MENTIONING

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ROBIN LEIGH-PEMBERTON, THE GOVERNOR OF THE BANK OF ENGLAND WHEN HE CAME TO THE UAE SHORTLY AFTER JULY 5. HE MET ONLY WITH SENIOR FINANCIAL ADVISOR MOHAMED HABROOSH AND GHANIM MAZROUI DURING HIS VISIT.

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HE

ACCENTUATED HIS CRITICISM OF THE BANK OF ENGLAND'S ACTION BY CLAIMING THAT ITS GOVERNOR SAID ONLY TWO WEEKS AGO THAT BCCI IN THE UK IS "ASSET RICH, CLEAN AND EFFICIENT." EMBASSY COMMENT: WHILE WE HAVE HEARD LEIGH-PEMBERTON'S VIEW THAT "THE CULTURE OF THE BANK (BCCI) IS CRIMINAL," THIS MORE LAUDATORY REMARK, IF EVER MADE, IS PUZZLING. END COMMENT.

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/***** BEGINNING OF SECTION 002 *****/

THE DRASTIC COURSE OF ACTION TAKEN BY THE BANK OF ENGLAND WAS AKIN TO TORPEDOING THE SHIP JUST AS IT ENTERED THE HARBOR, RETURNING FOR REPAIRS AND A CHANGE OF CREW. IT WAS ALSO LIKE SHOOTING SOMEONE ELSE'S HORSE WHILE YET ANOTHER PERSON WAS RIDING IT.

7. THE ABU DHABI SHAREHOLDERS SHOULD HAVE HAD THE RIGHT TO PROTECT THEIR INVESTMENT AND PRESERVE THEIR ASSETS. THEY SHOULD BE ALLOWED TO TAKE THE NECESSARY MEASURES TO PUT BCCI ON A STRONG FOOTING RATHER THAN BEING FORCED TO LIQUIDATE THEIR ASSETS IN THE SHORT TERM. MAXIMIZING THE RETURN ON THEIR INVESTMENT WOULD TAKE A LONGER PERIOD OF TIME, SAY ONE TO ONE AND A HALF YEARS, HE SAID, AT WHICH TIME BCCI OR ITS CONSTITUENT PARTS COULD BE SOLD WITHOUT INCURRING THE HEAVY LOSSES THAT WOULD RESULT FROM AN IMMEDIATE LIQUIDATION.

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BCCI'S FOUNDER, AGHA HAZAN ABEDI, ALWAYS MAINTAINED THAT BUILDING UP THE BANK ITSELF WAS HIS MAIN GOAL. HE WAS EXTREMELY PREOCCUPIED, EVEN OBSESSED, WITH THE SIZE OF THE BANK AND RELIED HEAVILY ON HIS DEALINGS WITH LEADERS OF STATE AND OTHER INFLUENTIAL INDIVIDUALS TO GET THINGS DONE ONE WAY OR ANOTHER. HOWEVER, HE WAS NOT INTERESTED IN SABOTAGE OR ILLEGAL ACTIVITIES AS

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ENDS IN THEMSELVES. OBVIOUSLY
BCCI'S FOUNDER WAS NOT ABOVE USING DIRTY TRICKS TO
SUPPORT HIS GOALS FOR THE BANK. NOW, HOWEVER, HE WAS
COMPLETELY OUT OF THE PICTURE; HIS HEALTH WAS SO BAD
THAT HE WAS NOT EVEN ABLE TO TALK COHERENTLY.

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INCLUDING UAE SHEIKHS, HE COULD BE
EXPECTED TO PAY A PARKING FEE FOR THE USE OF THE
"GARAGE." THE SHEIKHS APPARENTLY VIEWED ANY SPECIAL
FAVORS OR COMPENSATION GRANTED BY ABEDI AS SHARING IN
THE PROFIT PAID IN ADVANCE FOR BEING A SHAREHOLDER.

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10. CONCERNING DIVESTMENT OF THE UAE'S INTEREST IN
U.S. BANKS, UAE
OFFICIALS HAD MADE THE CASE WITH THE FED (INCLUDING ITS
GENERAL COUNSEL MATTINGLY) THAT IT WAS NOT JUST OR FAIR
IN A DEMOCRACY SUCH AS THE U.S. TO INSIST THAT THE
SHAREHOLDERS HAVE TO DISPOSE OF THEIR SHARES
IMMEDIATELY. THE UAE HAD PAID IN 120 TO 150 MILLION
DOLLARS IN SUPPORT OF BCCI CONTROLLED BANKS IN THE
U.S. BY NEXT WEEK A NEW CHAIRMAN SHOULD BE IN PLACE AT
FIRST AMERICAN BANK FOLLOWED BY APPOINTMENT OF A NEW
CEO AND PRESIDENT. HE SAID CLARK CLIFFORD AND ROBERT
ALTMAN WERE IN THE PROCESS OF BEING FORCED OUT. THE
NEXT STEP WOULD BE TO PUT ALL OF ABU DHABI'S SHARES IN
FIRST AMERICAN IN A TRUST UNTIL THE SITUATION
STABILIZES AND THE BANK IS OPERATING ON A SOUND
FOOTING. AT THAT TIME, SOMEWHERE BETWEEN A YEAR TO A
YEAR AND A HALF FROM NOW, THE UAE SHAREHOLDERS WOULD
LIKE TO SELL ITS SHARE IN THE BANK WHEN FINANCIAL
CONDITIONS ARE MORE FAVORABLE.

11. WHEN ASKED HOW THE PROBLEMS STARTED AT BCCI,
QUESTIONABLE ACTIVITIES WERE CENTERED
IN THE TREASURY DEPARTMENT IN THE UK, WHICH IS THE

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/***** BEGINNING OF SECTION 003 *****/
PLACE WHERE "RISKY" ACTIVITIES WOULD NATURALLY HAVE
BEEN FOCUSED. HE BELIEVED THAT THE BANKING REGULATORS

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IN THE U.K. BEAR THE PRIMARY RESPONSIBILITY FOR WHAT HAPPENED AT THE BANK, FOLLOWED BY THE AUDITORS, PRICE WATERHOUSE. MANY OF THE ALLEGATIONS THAT THE BANK OF ENGLAND TAKES AS GOSPEL HAVE NOT YET BEEN SUBSTANTIATED.

12. WHEN THE BANK OF FRA RECENTLY ASKED ABU DHABI FOR MONEY TO PAY DEPOSITORS THERE (REF C), THE FRENCH WERE TOLD IN VERY FRANK TERMS "NO" SINCE FRANCE DOES NOT HAVE A DEPOSIT PROTECTION SCHEME WHICH COULD BE USED AS A BASIS FOR PAYING DEPOSITOR CLAIMS. HE DESCRIBED THE TENOR OF THE EXCHANGE AS BEING LESS THAN CORDIAL.

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13. THE SITUATION IN THE UK IS DIFFERENT BECAUSE OF THE EXISTENCE OF A DEPOSIT PROTECTION SCHEME WHICH CANNOT BE TRIGGERED UNLESS A BANK IS PUT INTO LIQUIDATION. COMMENTING ON ABU DHABI'S PLANS TO PROVIDE FUNDS TO BCCI IN LONDON FOR DEPOSITORS, []

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THE FUNDS WERE TO MAKE UP FOR THE SHORTFALL BETWEEN WHAT WAS COVERED BY THE UK INSURANCE SCHEME AND THE ACCOUNT BALANCES. HE REVEALED THAT THE UAE MADE A COMMITMENT TO PROVIDE UP TO APPROXIMATELY 5,000 BRITISH POUNDS PER DEPOSIT FOR A TOTAL OF 42 TO 43 MILLION POUNDS IN THE UK.

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